

CHAPTER 4

GETTING STARTED: ESTABLISHING DIRECT LOAN ELIGIBILITY

Essential Questions

- ❖ How much can a student receive under Direct Loans?
- ❖ Are Direct Loans prorated?
- ❖ How does a student apply for a Direct Loan?
- ❖ Will the student need to complete any supplemental applications?
- ❖ How is eligibility for Direct Subsidized and Unsubsidized Loans determined?
- ❖ How is Direct PLUS Loan eligibility determined?
- ❖ How much can a parent borrow under the Direct PLUS Loan Program?
- ❖ Who is responsible for the parent's credit check?
- ❖ What happens if a parent is denied a Direct PLUS Loan?
- ❖ How will schools be notified if a parent's credit has been approved or denied?
- ❖ Is a parent required to go through the Direct PLUS Loan application process if it is obvious he or she will be denied?

Some Provisions Common to the FFEL Program

Most Direct Loan provisions are similar to those of the FFEL Program. For example

- ❖ annual and aggregate loan limits are the same for Direct and FFEL (see the loan limits chart on page 8)
- ❖ proration rules are the same in both programs

- ❖ Direct Subsidized and Unsubsidized Loans are tracked using the Financial Aid Transcript, just as FFELs are

Determining Direct Subsidized and Unsubsidized Loan Eligibility

From your perspective, the first step in the loan process is establishing a borrower's eligibility. This process is the same as currently performed for any Title IV program in which your school participates.

The general sequence of actions is as follows:

- ❖ All students applying for Direct Loans use the paper *Free Application for Federal Student Aid* (FAFSA) or the electronic *FAFSA Express*. Data may also be entered through EDEExpress at a school. There is no separate Direct Loan application.
- ❖ Dependent students must have their parents complete the appropriate FAFSA sections.
- ❖ The Central Processing System (CPS) conducts required database matches and calculates a student's Expected Family Contribution (EFC) according to the federal need analysis.
- ❖ You receive an electronic Institutional Student Information Report (ISIR) from the CPS or a paper Student Aid Report from the student.
- ❖ You determine the cost of attendance and use the EFC the CPS calculates (or an EFC you have adjusted) to determine the student's estimated financial assistance. **Note that you are not required to resubmit corrections or adjustments for recalculation of the EFC to the Central Processing System (CPS).** If you choose to do so, you may, but it is suggested that you not wait for those reprocessed changes before originating a Direct Loan.
- ❖ You use the EDEExpress optional packaging module (an operating system function that schools can customize) or another packaging tool (for example, your current packaging procedures) to create an award package.

You may include a Direct Loan award in the student's initial award package (and, if you are at an Option 1 or Option 2 school, send a promissory note with the award notification), or you may award the loan at a later time, at the student's request.

- ❖ You notify the student of the anticipated Direct Loan award amount through an award letter, generated by the EDExpress award packaging module, or through your own method of award notification.
- ❖ If the student is selected for verification, he or she must submit appropriate income tax forms or alternative documents. If the student is not selected for verification, you will decide whether to require documentation.

Determining PLUS Eligibility and Loan Amounts

A parent applicant must fill out a separate application/promissory note and must meet specific credit requirements to receive a Direct PLUS Loan. If you are at a Standard Origination school, the Direct Loan Servicing Center will, at your request, send an application/promissory note to a parent, based on the information obtained from the loan origination record you create.

If you are at an Option 1 or Option 2 school, the sequence of actions for Direct PLUS loan applications is as follows:

Application Process

- ❖ Using the EDExpress software or a similar methodology that meets the Department's specifications, you may preprint or manually complete the student and school sections before sending the application to the parent. You may choose instead to leave the school sections blank.
 - If you have developed your own institutional application, or if you require an award letter acceptance to be returned to you before processing a Direct Loan request, you could obtain the additional Direct PLUS Loan information through one of these processes. These methods would help if you want to preprint information before sending the application to the parent.
- ❖ You may forward the application with the student's award notification or upon request. The appendices include a sample of the PLUS application/promissory note.
- ❖ The application/promissory note requests demographic information and references from the student's parent.
- ❖ The parent borrower completes the application/promissory note, including the loan amount requested, and returns the note to your school. You may not lend more than the requested amount, even if the parent borrower is eligible

for more. The parent may not borrow more than the student's calculated Cost of Attendance minus expected financial assistance.

- ❖ You review the application/promissory note for completeness and accuracy and either enter the application data electronically or forward the hard copy application/promissory note to the Direct Loan Servicing Center. **NOTE: Sending the hard copy will no longer be an option after 1996-97.**

Credit Issues

After receiving the Direct PLUS Loan origination record from you (see Chapter 5 for more information on origination records), the Direct Loan Servicing Center transmits the applicant information to a credit bureau and receives the credit check results in one business day.

The Servicing Center evaluates the credit report to determine if the applicant has an adverse credit history, as defined by Direct Loan Program regulations. The Direct Loan Program adverse credit criteria are identical to the FFEL Program criteria, which provide that a PLUS Loan applicant is rejected if

- ❖ the applicant is 90 or more days delinquent on any debt as of the credit report's date
- ❖ during the five years preceding the date of the credit report, the applicant has been the subject of a default determination, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off of a Title IV debt

Parent Notification

If an applicant is approved for a Direct PLUS Loan, the Direct Loan Servicing Center transmits the credit check results to your school and a Direct PLUS Loan disclosure to the parent.

If an applicant is rejected, the Servicing Center notifies the applicant of the denial and includes the following information:

- ❖ the reason for rejection
- ❖ the name of the credit bureau that supplied the data on which the rejection is based
- ❖ an endorser form
- ❖ the name and telephone number of a service representative the applicant may contact for further assistance

The rejected applicant has several options:

- ❖ contact the credit bureau to resolve any inaccurate credit information
- ❖ contact the Direct Loan Servicing Center to discuss and document extenuating circumstances
 - obtain an endorser who does not have an adverse credit history (the endorser submits his or her credit information on the form the Direct Loan Servicing Center provides)

An endorser is defined as an individual who signs a promissory note and agrees to repay the loan if the parent borrower does not.

School Notification

The Servicing Center notifies your school of the applicant's credit evaluation within five business days by means of decision codes in the Direct PLUS Loan origination record.

- ❖ You continue processing loans for Direct PLUS Loan applicants who meet the credit criteria and stop processing for applicants who do not meet the criteria.
- ❖ If an applicant documents that extenuating circumstances exist or resolves erroneous credit information, you await the Department's decision and process the loan accordingly.

If an applicant is not approved for a Direct PLUS Loan and reapplies with an eligible endorser, the endorser must submit an endorser form to the Direct Loan Servicing Center and undergo a credit check.

Applicants with Adverse Credit Histories

You will need to develop a policy for handling Direct PLUS Loan applicants with adverse credit histories.

You will want to determine whether the rejected parent borrower wishes to cancel the Direct PLUS Loan application or instead seeks loan approval based on extenuating circumstances or based on an endorser with no adverse credit history.

- ❖ If the parent borrower chooses not to pursue a Direct PLUS Loan, the dependent student may borrow Direct Unsubsidized Loan funds. The parent's loan application must be cancelled before you may process a Direct Unsubsidized Loan for the student with remaining eligibility. Note that the Direct Unsubsidized Loan would be initiated only at the student's request.

Other regulatory circumstances that allow a dependent student to borrow Direct Unsubsidized Loans include

- ❖ the parent receives only public assistance or disability benefits
- ❖ the parent is incarcerated
- ❖ the parent's whereabouts are unknown

The Direct Loan regulations provide the flexibility to assist families who obviously will not meet the credit requirements for Direct PLUS Loans. You can develop an internal process to review a parent's circumstances so that he or she does not complete the application process unnecessarily.

- ❖ If a parent borrower presents documentation to the school showing at the outset that he or she will not meet the credit criteria (for example, the parent has a tax lien), you can decide immediately to bypass the PLUS application process and award Direct Subsidized Loan funds to the dependent student.

Packaging

In determining the student's eligibility for loans, remember there is great flexibility in how you package and award loans to a student, and there are choices to be made about how to use Direct Unsubsidized Loans and Direct PLUS Loans.

There are probably many approaches, but here are three:

- ❖ Restrict loan amounts to Direct Subsidized Loans only (may leave unmet need).
- ❖ Restrict loan amounts to Direct Subsidized and Unsubsidized Loans only up to established need (may also leave unmet need).
- ❖ Allow loan amounts to cover unmet need and replace EFC up to the Cost of Attendance.

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As you determine loan amounts for your students, consider

- ◆ student loan indebtedness and ability to repay
- ◆ your ability to use professional judgment to reduce a student's eligibility
- ◆ the desirability of informing families of their full eligibility and letting them choose how much debt is appropriate

If you decide to award applicants up to the Cost of Attendance, keep in mind that an overaward will exist if the student receives any additional resources. As is currently required, schools must be vigilant in monitoring overawards.

Maximum Annual Loan Amounts					
Borrower's Academic Level	Dependent* Student	Independent Student			
	Sub+Unsub	Subsidized		Unsubsidized	Total Amount
First-Year Undergraduate Student					
one academic year	\$2,625	\$2,625	+	\$4,000	= \$6,625
2/3 academic year	\$1,750	\$1,750	+	\$2,500	= \$4,250
1/3 academic year	\$875	\$875	+	\$1,500	= \$2,375
Second-Year Undergraduate Student					
one academic year	\$3,500	\$3,500	+	\$4,000	= \$7,500
2/3 academic year	prorated	prorated	+	\$2,500	= prorated
1/3 academic year	prorated	prorated	+	\$1,500	= prorated
Third-Year and Remaining Undergraduate Student					
one academic year	\$5,500	\$5,500	+	\$5,000	= \$10,500
less than an academic year	prorated	prorated	+	prorated	= prorated
Graduate or Professional Student	N/A	\$8,500	+	\$10,000	= \$18,500

*For dependent students whose parents cannot borrow under the Federal Direct PLUS Loan Program, the amount of unsubsidized loans the student can borrow is the same as for an independent student.

Total Loan Limits

Subsidized Loans

- ◆ \$23,000 for undergraduate study
- ◆ \$65,500 for graduate study, including loans for undergraduate study

Subsidized and Unsubsidized Loans

- ◆ \$23,000 for a dependent undergraduate student
- ◆ \$46,000 for an independent undergraduate student (and for certain dependent students)
- ◆ \$138,500 for a graduate or professional student (including loans for undergraduate study)